



State of Arizona
Department of Education

Tom Horne
Superintendent of
Public Instruction

FD 05-10

MEMORANDUM

TO: National School Lunch Program Administrators
Food Service Directors and Commodity Contacts

FROM: Tina Herzog, Program Director
Arizona Department of Education, Food Distribution

DATE: March 15, 2010

SUBJECT: Value of USDA Donated Foods for Audits – NSLP and SFSP

The purpose of this memorandum is to disseminate clarification from the United States Department of Agriculture (USDA) regarding the options available to State distributing agencies or recipient agencies (schools / sponsors) in assigning value to USDA donated foods for audit purposes. The significance of this matter is its relevance to determining:

- 1) If an audit must be obtained for a given school or fiscal year; and
- 2) Whether Food and Nutrition Services (FNS) programs for which a distributing or recipient agency receives donated foods qualify as major programs that auditors must test for programmatic compliance.

In accordance with Section 200 of OMB Circular A-133 (7 CFR 3052.200), agencies of State or local government and nonprofit organizations that expend \$500,000 or more in Federal grants in a given school or fiscal year must obtain an audit for that year. In determining whether \$500,000 in Federal grants were expended, a distributing agency or recipient agency must consider the value of USDA donated foods as part of such grants. There are two steps in accomplishing this:

Step 1: Determining the **quantity** of each USDA donated food “expended”.

A recipient agency (school or sponsor) in NSLP or SFSP, or charitable institution that receives donated foods in accordance with § 250.67, must consider all USDA donated foods ***received*** in a school or fiscal year as expended.

Step 2: Assigning **value** to the quantity of each USDA donated food “expended”.

In accordance with Section 205(g) of OMB Circular A-133 (7 CFR 3052.205(g)), Federal non-cash assistance, such as USDA donated foods, must be valued at either fair market value (FMV) at the time of receipt, or at the value determined by the Federal agency. Accordingly, for audit purposes, a distributing or recipient agency may use either the FMV of donated foods at the time of their receipt or one of the following donated food valuation methods included in 7 CFR 250.58(e):

- 1) The USDA purchase price (cost-per-pound);
- 2) The estimated cost-per-pound data provided by the Department (USDA); or
- 3) The USDA commodity file cost as of a date specified by the distributing agency. (At the time of this memo, this is the preferred method of the Arizona Department of Education, utilizing the USDA November 15th commodity file pricing.)

Each distributing or recipient agency must choose a method of valuing donated foods for audit purposes. In most cases, it would probably be easier for a distributing or recipient agency to use one of the options listed in 7 CFR 250.58(e), rather than having to determine the FMV at the time of their receipt. Once a distributing or recipient agency has selected a method of assigning value to donated foods, it must use that method consistently in all of its audit activities, and must maintain a record of the means of valuing donated foods for such purpose.

The guidance provided in this memorandum applies only to the value of donated foods to be used for audit purposes, and not to the value that must be used for other purposes. For example, in determining and pursuing claims for donated food losses, distributing and recipient agencies must determine the value of lost donated foods in accordance with FNS Instruction 410-1.

If you have any questions regarding the valuation of donated foods for audit purposes, please feel free to contact Tina Herzog at (602) 542-8781. Thank you.